Service Date: April 16, 1986

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application Of The MONTANA POWER COMPANY For Authority To Establish Rates For Its Deferred Accounting Filing, And IN THE MATTER Of The Canadian Border Price Reduction From $US 3.15 MMBTU to $US 3.00 MMBTU	UTILITY DIVISION DOCKET NO. 85.12.52 ORDER NO. 5174a

FINDINGS OF FACT

1. On December 11, 1985, The Montana Power Company (Montana Power or Company) filed an application seeking approval of new gas rates which reflect (1) the amortization of the balance in Account 191 (Unreflected Gas Cost) for the 12-month period ending August 31, 1985; (2) the projected tracking market, supply and gas costs for the period September 1, 1985 to August 31, 1986; (3) the recovery of certain costs related to the settlement of two gas supply contract disputes -- Alberta and Southern (A&S) and Energy Oils; and (4) the termination of the unit amortization in rate schedules approved in Order No. 5116a (Docket No. 84.10.65).

In addition, in its application, the Company requested approval of Rate Schedule Rate Deferred Accounting Gas -- 79, Supplement #1 (hereinafter Rate DAG-79, Supp. #1).

2. The application was made pursuant to the procedures set forth in the Deferred Accounting Gas Schedule approved by the Commission in Order No. 4598
(as amended), Docket No. 6706. The Montana Consumer Counsel, Great Falls Gas Company and Treasure State Pipe Line Company sought and were granted intervention status.

3. The application presented an Account 191 (Unreflected Gas Cost) balance of $5,758,438.58 and a tracking market and supply which produced a gas cost of $1.993 per Mcf.

4. The application also presented $9,195,091 of costs associated with the settlements of the A&S and Energy Oils gas supply contract disputes, and asked that such costs be recovered in rates over a one-year period. The Applicant proposed a permanent annual revenue requirement reduction of $782,851, reflecting a rate base reduction resulting from the A&S settlement. (See discussion in Finding of Fact 8.)

5. The application further requested cessation in the amortization of the "old" Unreflected Gas Cost Account Balance for a previous one-year period (ending August 31, 1984) and the "Excess Winter Discount Balance" which were approved in Order 5116a and were to be extinguished on or about January 25, 1986. The Company proposed that the amortization be extinguished on the effective date of the new rates and the the remaining actual balances (estimated to be $230,537 at January 1, 1986) be included in the Unreflected Gas Cost Balance Account for the 12 months ended August 31, 1986. The Commission finds such a change to be proper.

6. The Applicant sought approval of Rate DAG-79, Supp. #1. Under this rate schedule, the unreflected gas cost adjustments are amortized on a utility-wide, uniform price per MCF basis, rather than on a class specific price per MCF basis. Rate DAG-79, Supp. #1 is consistent with past Commission orders and, therefore, it is approved.

7. In its application, Montana Power states that its gas costs might be further reduced because of a request to the Canadian National Energy Board to reduce the Canadian Border Price. The Company further stated that if a reduction occurs and has a substantial effect on the August 1986 Deferred Account Balance, then an updated gas cost revision would be filed during the tracking period. The Commission agrees that a revision, in the circumstance outlined above, would be appropriate.

8. On December 20, 1985, the Commission, in Interim Order No. 5174, gave interim approval to the application with two

exceptions. First, the Commission extended the recovery of the A&S and Energy Oils settlements over a five-year period rather than the one-year period proposed by Montana Power, and the unamortized balances were to be reflected in rate base and reduced ratably over the five-year period. (Interim Order No. 5174, Finding of Fact 3). Second, the Commission ruled that Montana Power should take "Aden" gas from its subsidiary, Canadian-Montana Gas Company, in the same purchased gas/royalty gas proportion as approved for MPC's previous gas tracker. Montana Power had sought a change because of an alleged inability to take as much as from storage as previously contemplated. (Id., Finding of Fact 5).

The Commission finds that these two adjustments to the application were properly made in the Interim Order and will be carried over to this final order. The longer five-year amortization for the settlements costs is reasonable because it smooths the impact of these large expense items, while using a shorter period than that in which the liability was actually incurred. The Commission continues to believe that no adjustment to the gas mix approved in Docket No. 84.10.65 should occur until there is a factual examination of the Company's claimed inability to withdraw more gas from storage.

9. The interim rates approved by the Commission resulted in overall reduction of $6,505,860 in annual revenues as shown in more detail on the following table:

TABLE

	Firm Class	Interruptible	Utility	Total
A&S and Energy Oils Amortization	$1,194,167	$325,683	$ 319,168	$1,839,018
Rate Base Revenue Requirement	(30,053)	(9,305)	(9,119)	(48,477)
Current Cost of Gas Reduction	(3,120,339)	(851,429)	(834,396)	(4,806,264)
Unreflected Gas Cost Amortization	(3,740,975)	(1,018,924)	(998,540)	(5,758,439)
Subtotal	(5,697,200)	(1,553,975)	(1,522,887)	(8,774,062)
Old Amortization	1,987,499	539,704	528,907	3,056,110
Excess Winter Discounts Amortization	(787,908)			(787,908)
Total	$(4,497,609)	(1,014,271)	(993,980)	(6,505,860)
Sales Volumes (MCF)	14,613,960	4,652,620	4,559,542	
Unit Change (per MCF)	($0.308)*	(0.218)	($0.218)	

*(Summer-all, Winter> 15)

10. The application maintained the rate design policy approved by the PSC in Montana Power's previous tracking filing, including the application of all the firm class rate decrease to the Excess/Remainder of Year rate blocks. The Commission finds this method to be proper for rate design purposes.

CONCLUSIONS OF LAW

1. The Applicant furnishes gas service to consumers in Montana and is a "public utility" subject to the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101 MCA (1985).

2. The rate change requested in the application, as modified by Interim Order No. 5174, is in the public interest and results in rates which are just and reasonable.

ORDER

1. The reduction in rates which results from the Montana Power Company's application, as modified in Interim Order No. 5174, is consistent with the above findings of fact and is in the public interest and is hereby given final approval.

2. The interim rates effective under Interim Order No. 5174 are just and reasonable, comply with the findings of this order, are not subject rebate, and are hereby given final approval.

3. Rate DAG-79, Supp. #1 is hereby approved.

DONE IN OPEN SESSION at Helena, Montana this 14th day of April by a 3-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Clyde T. Jarvis

Clyde Jarvis, Chairman

Howard L. Ellis

Howard L. Ellis, Commissioner

Danny Oberg

Danny Oberg, Commissioner

ATTEST:

Trenna Scoffield

Trenna Scoffield
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be file within ten (10) days. See 38.2.4806, ARM.